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Major credit agencies unveil new credit scoring system

By EILEEN ALT POWELL, THE ASSOCIATED PRESS

The nation's largest consumer credit bureaus have unveiled a new credit scoring system that they hope will give lenders a better measure of borrowers' creditworthiness and make the process easier for everyone to understand.

Consumer advocates worry that it won't necessarily work out that way.

As Jean Ann Fox, director of consumer protection with the nonprofit Consumer Federation of America in Washington, D.C., put it, the new system looks a bit like "a new recipe, but the same old ingredients."

The credit reporting companies - Equifax Inc. of Atlanta, Experian Information Solutions Inc. of Costa Mesa, Calif., and TransUnion LLC of Chicago - announced Tuesday that they're introducing **VantageScore** to banks, mortgage lenders and credit card companies. The new scores will be available to consumers later this year.

Credit scores traditionally have been three-digit numbers that lenders use to evaluate borrowers. The scores reflect how much debt a consumer is carrying, how good they've been at paying back loans and how many credit applications they have outstanding.

The scores are important because lenders use them to decide if they'll loan money to consumers and at what rate. The higher the score, the more creditworthy the consumer is considered and the lower the interest rate the consumer will be charged.

The agencies in the past each used proprietary formulas to generate their own scores, meaning that a lender dealing with a consumer's application for a credit card or a mortgage might have to reconcile three widely different scores.

With the new system, a single methodology will be used to create the scores for all three credit bureaus. There will be only minor variations, based on differences in the data each bureau has accumulated in consumer files, they said.

"There's clearly been a need out there to have a consistent scoring model that works across all three reporting agencies' data," said Kerry Williams, group president of Experian's credit services division. "And consumers need a consistent

score that they can understand and use in their own financial lives."

All well and good, says the CFA's Fox, but inaccurate information in the credit files maintained by the bureaus has been more of a problem than inaccurate scores.

"It doesn't address the underlying accuracy of the credit reports on which the scores are based," Fox said.

In addition to the credit agency scores, some large lenders generate their own internal scores, often using credit bureau data. And many lenders - including credit card and auto lending businesses - use **FICO** scores, which are named for the Minneapolis-based **Fair, Isaac** Corp. that developed them.

Fair, Isaac has done considerable outreach to educate consumers about **FICO** scores, which range from 300 to 850.

The new system being introduced by the credit bureaus will provide scores ranging from 501 to 990.

"There could be confusion among consumers unless they make it clear that there are two systems," said Linda Sherry, a spokeswoman for Consumer Action in San Francisco. "People have gotten used to thinking a certain number like 700 is a good score. That might be true if it's a **FICO**, but might not be under the new system."

Thomas G. Grudnowski, the chief executive officer of **Fair, Isaac**, said it wasn't clear to him why the credit bureaus were looking at a different numbering system.

"Frankly, these scores are encoded in computers all over the place," Grudnowski said. "There has to be a big, burning reason for lenders to want to change."

He added: "The other scores (the credit bureaus) have been trying to sell haven't worked. Now they're trying another idea, and that's what competition is all about."

Dana Wiklund, senior vice president for predictive sciences at Equifax, said that the **VantageScore** "is a new, competitive product to give lenders greater choice, and hopefully greater accuracy, in credit scoring."

He said it was created because "customers have come to us" looking for a new system and that "the rate of adoption will determine, ultimately, if the score replaces any in-house or generic scores on the market."

David Rubinger, spokesman for Equifax, told a conference call with reporters that the new score was expected to reduce the variance in a consumer's scores by about 30 percent compared with what it was under the old system.

He said the score would reflect a consumer's frequency of borrowing, delinquency in paying bills and other "file content." But Rubinger and other credit bureau spokesmen said it was too soon to provide the specific weights for the components.

VantageScore is being independently marketed by each of the three national credit reporting companies through licensing agreements with **VantageScore** Solutions LLC, the announcement said. **VantageScore** Solutions is jointly owned by the three credit bureaus.

New scoring

CREDIT SCORES: The major consumer credit reporting agencies - Equifax, Experian and

TransUnion - create a unified credit scoring system that features "a more consistent and objective approach."

WHAT IT MEANS TO CONSUMERS: Credit scores given to lenders will be much more uniform; it should speed up the loan approval process.

WHEN CAN I GET IT? The credit bureaus showed the new system to federal banking regulators on Monday and began rolling it out to banks, mortgage brokers, credit unions and other financial institutions for evaluation on Tuesday. Consumers aren't likely to start getting detailed information about the new scores - or access to them - until later this year.

---- INDEX REFERENCES ----

COMPANY: EXPERIAN INFORMATION SOLUTIONS INC; MARMON GROUP LTD; EQUIFAX INC; EXPERIAN CORP

NEWS SUBJECT: (Consumer Protection (1CO43); Non-Profit Organizations (1NO22); Social Issues (1SO05); Economics & Trade (1EC26))

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March 15, 2006

Credit Bureaus Join to Remake Scoring

By Caroline E. Mayer

WASHINGTON _ The nation's three largest credit bureaus Tuesday unveiled a new credit scoring system that they say will make it easier for lenders to determine a borrower's credit risk and for consumers to more accurately gauge their financial health.

In a rare cooperative venture, Equifax Inc., Experian Information Solutions Inc. and TransUnion LLC designed the new system, called **VantageScore** , to simplify the credit-application process by providing an easy-to-understand, consistent score among the three firms. They say the score will better predict whether a consumer will make timely payments over the life of a loan.

However, the three credit bureaus released so few details about **VantageScore** that industry officials and consumer activists said that the credit-application process could become more confusing for consumers, certainly in the short-term and possibly longer.

VantageScore will compete with **FICO**, the scoring system created by **Fair Isaac** Corp. and used in about 75 percent of all mortgage applications. It will use a different set of calculations to produce scores, ranging from 501 to 990; the **FICO** scale goes from 300 to 850.

Although the credit bureaus are starting to sell **VantageScore** to lenders, the new scores won't be available to consumers for at least several weeks. Consumers can continue getting the individual credit-bureau scores as well as **FICO** scores. The latter vary widely among the credit bureaus _ a common complaint that led to the creation of **VantageScore**.

The new scoring system will not be valuable to consumers ``unless the credit grantor adopts and uses it,'' said Paul Springman, chief marketing officer for Equifax. He said his firm would switch as soon as lenders accept the new system. ``That will take more than six months,'' he said.

Experian said it hoped to offer the new score to consumers within eight weeks, while TransUnion said it would do so later this year.

Virtually no loan is granted today without a credit score _ a three-digit number based on payment history, outstanding debt, and the number and type of accounts. Lenders say these scores treat applicants more objectively and speed up the approval process, which is critical in today's credit-based economy.

The higher the score, the better the credit risk _ and the lower the interest rate to be charged. For **FICO**, most people score in the 600s and 700s and anything above 700 is considered very good financial health. Under **VantageScore**, anything above 900 is considered an ``A''; between 800 and 900 a ``B'' and so on.

The different scoring scale might confuse consumers, who are still getting used to the **FICO** system, said Stephen Brobeck, executive director of the Consumer Federation of America. ``This is complicated enough without a second scale,'' he said.

The credit bureaus said they developed **VantageScore** after lenders requested a more accurate system, one in which scores did not vary widely among credit bureaus. The score will be independently marketed and sold by each bureau through licensing agreements with **VantageScore** Solutions LLC, which is jointly owned by the three companies.

Although the new mathematical formula used to come up with the score is intended to reduce the variation, there will still be differences because each company collects data differently. Since some accounts may be listed at one bureau but not the other, a consumer may still get different scores from each firm.

``It doesn't address the larger issue of how accurate are the files,'' said Gail Hillebrand, a senior attorney with Consumers Union.

VantageScore represents an attempt by the credit bureaus ``to develop a better mousetrap, to put more money in their pocket and prevent more from going out of it,'' to rival **FICO**, said Greg McBride, senior financial analyst for Bankrate Inc., whose Web site Bankrate.com aggregates financial rate information.

Ron Totaro, vice president of **Fair Isaac's** Global Scoring Solutions said the 17-year-old **FICO** score is ``pretty ingrained and encoded in computer systems'' of lenders which will make it hard for financial institutions to switch. ``It's very difficult to come up with a better mousetrap,'' he added.

Douglas Duncan, chief economist for the Mortgage Bankers Association, said **VantageScore's** success will depend on accuracy, price and product efficiency.

McBride said that with the dueling systems, banks will become much ``like high school seniors deciding which college-entrance exam to take, the ACT or SAT.''

---- INDEX REFERENCES ----

COMPANY: EXPERIAN INFORMATION SOLUTIONS INC; BANKRATE INC; MARMON GROUP LTD; FAIR ISAAC CORP; EQUIFAX INC; EXPERIAN CORP

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SFGate.com

Dissecting new credit scoring

David Lazarus
Friday, March 17, 2006

901-990	A
801-900	B

The three top credit-reporting bureaus say their new method of assigning a letter grade to people's creditworthiness will be a boon to consumers by adding more transparency and user friendliness to the system.

Consumer advocates say it's just another way for these companies to make money off people who never gave permission for their spending to be monitored in the first place.

"What the credit bureaus are most interested in is gaining market share in the increasingly lucrative market for credit scores," said Travis Plunkett, legislative director for the Consumer Federation of America.

"They may say this is about helping consumers," he added, "but this isn't an industry that has a history of being responsive to consumer concerns."

Equifax, Experian and TransUnion jointly announced this week that their new VantageScore system -- the first time they've collaborated on credit scores -- "will provide consumers and businesses with a highly predictive, consistent score that is easy to understand and apply."

In the past, each company used its own data and methodology to rank consumers' creditworthiness, creating a hodgepodge of credit scores for lenders to consider.

What's different now is that even though Equifax, Experian and TransUnion will continue using their own data to generate millions of credit files, they'll use a standardized formula to come up with credit scores.

"The scores will still be different," acknowledged Don Girard, a spokesman for Experian. "You'll still get three different scores. But you'll be able to understand the differences more readily than before."

At the moment, the credit bureaus are hawking their new-and-improved scores to banks, credit-card issuers and other lenders. Consumers probably will be offered their first peek in June, at a cost of about $5 per score.

That is, if they think they need yet another window on their creditworthiness.

Currently, the benchmark credit score in the United States is the FICO score developed by Minneapolis financial firm Fair Isaac. It's used by the vast majority of big lenders as a yardstick for customers' standing in the credit world.

Fair Isaac crunches data obtained from the credit bureaus to calculate a person's creditworthiness on a numeric scale from 300 to 850 (with anything above 720 being seen by lenders as a good credit risk).

"Our score is the one usually being used to drive lending decisions," said Ron Totaro, Fair Isaac's vice president of global scoring.

He noted that about 80 percent of the top 50 lenders nationwide rely on FICO scores before doling out cash to consumers. About three-quarters of all mortgage loans hinge on FICO scores, he said.

"The credit bureaus ceded the market space to us and have finally realized that they should have been doing this all along," Totaro said.

"They haven't been successful at stealing our market share with their own proprietary scores," he observed. "So now they're making another attempt by holding hands."

Experian's Girard said technicians from each bureau came together to create software that would generate credit scores using standardized criteria and techniques.

The new VantageScore system will produce numeric credit scores like Fair Isaac's, only they'll range from 501 to 990. Letter grades -- A to F -- will be given to various scores to give consumers a better sense of their credit status.

Girard said he expects lenders and consumers to embrace the new system. "If you build a better mousetrap, people will buy it," he said.

But Plunkett at the Consumer Federation of America said the competing systems will probably leave many people scratching their heads.

Why, for example, is someone a 760 at one company but a 940 at another?

"At a time when consumers are finally starting to learn about the importance of credit scores, we're concerned that this will only cause confusion in the marketplace," Plunkett said.

He also said some data used by credit bureaus have been shown in the past to be inaccurate or out of date. The companies' new scores, in turn, might reflect such bad info.

"New recipe, same old ingredients," Plunkett said.

The credit bureaus previously paid little attention to consumers, profiting mainly from selling people's credit info to lenders.

That has changed in recent years as more cases of fraud and identity theft have raised awareness about the need to safeguard one's standing with creditors.

The bureaus now do a brisk business selling credit-monitoring services and credit reports, along with a variety of other consumer-focused products.

And sometimes they go too far.

Experian paid $950,000 to the Federal Trade Commission last year to settle charges that the company used an offer of "free credit reports" to dupe people into signing up for a $79.95 credit-monitoring program.

Bill Hardekopf, chief exec of LowCards.com, an online credit card comparison service, pointed out that the credit bureaus took a financial hit in 2003 when Congress ordered them to give fraud-wary consumers a free credit report every year.

"It looks like the three credit-reporting agencies have come up with a way to recapture some of their lost revenue," Hardekopf said of the new credit scores.

Experian's Girard said VantageScore was devised at the request of the credit bureaus' corporate clients, which he said want greater uniformity among credit scores.

But Girard acknowledged that the new scores also represent a potentially bountiful business opportunity.

"We view this as a great business for us," he said. "We believe we'll become the preferred score in the marketplace."

At Fair Isaac, Totaro said he wishes the credit bureaus luck.

"They've been trying to knock us off our perch for years," he said. "It hasn't happened yet."

David Lazarus' column appears Wednesdays, Fridays and Sundays. Send tips or feedback to dlazarus@sfchronicle.com.

http://sfgate.com/cgi-bin/article.cgi?f=/c/a/2006/03/17/BUG6VHOTKR1.DTL

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Who's got your number?

Credit bureaus tout clarity of new scoring system, but critics predict confused customers

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If you're an 800 now, you're golden. Want to buy a house? Your lender will let you borrow what you need -- and probably more -- at the lowest rates offered to homebuyers.

Later this year if you're an 800 it could mean you need to work on things. You might want to close a few credit card accounts or make sure you are paying all your bills on time.

What's an 800? A pretty decent credit score by the current standard, but that might change. Scores, put together by credit bureaus that sell the data to lenders, typically range from 300 to 850.

The dominant credit scoring system was invented in 1989 by Fair Isaac Corp. -- hence the FICO score. The FICO formula is used by all of the major consumer credit bureaus, which keep records on how you pay your bills and use the formula to produce scores they then sell to lenders. Each bureau -- Experian, Equifax and TransUnion -- has different data on you and uses a slightly different version of the FICO formula, which means your FICO score varies by bureau.

But FICO is about to get some competition.

The three credit bureaus unveiled a new unified scoring system last week, saying it would be easier for lenders making loan and consumers checking on their financial health. They are marketing "VantageScore" to banks, mortgage lenders and credit card companies immediately. It will be available to lenders and consumers later this year.

Credit scores reflect how much debt you have, how well you stay on top of it and how many applications you have for more debt.

The difference between a good score and a bad score might mean the ability to get a loan and can mean thousands of dollars in interest payments. The better your score the better rates you'll get on home and car loans.

The nice thing about VantageScore, the bureaus say, is it's more intuitive because it's based on academic grades. Fall between 901 and 990 and you get an A. Between 501 and 600 gets you an F. The middle is split evenly for B, C and D grades.

"Because it is based on an academic score, it is easier to understand. People can relate to that," said Steven Katz, spokesman for TransUnion.

VantageScore will also offer lenders consistency. As it is now, each bureau produces a different score because not all of them have the same information, but with the new scoring system they will be pooling their knowledge to produce one score.

Consumer advocates like the consistency, but they don't believe the new score, which will be sold to lenders and consumers, will eliminate consumers' confusion. Some call it a marketing tool, a way for the three credit bureaus to collectively compete with the FICO score by cutting out the credit-score middleman.

"This is a money-making proposition," said Linda Sherry, spokeswoman for Consumer Action, a watchdog group in Washington. "They are positioning themselves to compete against FICO."

Introducing a new grading system will only leave consumers more perplexed about whether lenders see them as a good or bad credit risk, said Gail Hillebrand, senior attorney for Consumers Union, publisher of Consumer Reports. After all, other scoring systems -- with a lower top and higher bottom -- aren't going anywhere. The credit bureaus themselves will continue to offer individual scores that will differ from VantageScore and Fair Isaac will still have its FICO score.

"The fallout for consumers is some confusion in knowing, `Do I have a good score?' " Hillebrand said. "The answer will depend not just on the number but on the scale that it is on."

David Rubinger, spokesman for Equifax, said the VantageScore is more about what lenders need than consumers. But there might be a trickle down benefit to consumers, however, if lenders are able to make more informed decisions based on the unified score.

"The lending community was looking for a score that had a more consistent and predictable nature to it," he said.

The credit bureaus deny VantageScore is about competing with FICO.

"We believe it is about providing choice to the (credit) grantor," Rubinger said. "There are a lot of different scores out there besides the FICO score."

It's not clear whether lenders will go with VantageScore. Many of them use FICO. Forty of the nation's 50 largest banks and the 25 largest credit card companies and 25 largest auto lenders all use FICO, said Craig Watts, a spokesman for Fair Isaac. Three-fourths of mortgages are decided partly based on FICO, he added.

"It is the 800-pound gorilla," Watts said.

Some lenders, particularly mortgage banks, merge scores and further massage them by adding data to come up with proprietary scoring for individual consumers.

The three credit bureaus began marketing VantageScore to lenders last week and said it was too early to say how it was being received.

What doesn't change for consumers is what they have to do to get and maintain a good credit score -- no matter what numbers are being used. It starts with paying bills on time. That's the No. 1 factor in credit scores. Getting as close as possible to a 990 or 850 (depending on who's scoring) means establishing a reliable credit track record and not taking on too much debt.

And it helps to order your credit report, too. There might be errors on it that you can easily correct to boost your score.

Different Scoring Systems

Several companies crunch consumer credit scores and sell them to lenders trying to assess credit risk or credit worthiness (i.e., who gets a loan and what interest rate they get). Generally, credit scores range from 300 to 850.The new VantageScore -- announced last week by the three major consumer credit bureaus -- will use numbers that correspond to academic grades with A and B grades going to the best potential borrowers and D and F to the weakest. The VantageScore scale looks like this:

A: 901-990

B: 801-900

C: 701-800

D: 601-700

F: 501-600

Free Reports, Not Scores

Starting last year, federal law allows everyone one free copy of their credit report (not credit score) a year from each of the three credit reporting bureaus -- Experian, Equifax and TransUnion. You can get all three reports at once or spread them out through the year. To order: http://www.annualcreditreport.com/ or (877) 322-8228. Or fill out the Annual Credit Report Request Form (www.ftc.gov/credit/) and send to Annual Credit Report Request Service, P.O. Box 105281, Atlanta, GA 30348-5281.

You should check your report once a year. If you find an error, contact the creditor associated with the account or the

credit reporting agency to correct it immediately.

Consumers must still pay for their credit scores. Prices vary and there are several package promotions. For example, at http://www.truecredit.com/, consumers can buy all reports and scores from each of the three bureaus for $29.95. Pricing and packaging of the VantageScore has not been determined, said Steven Katz, spokesman for TransUnion.

Borrowers, Be Aware

The 5 factors that determine your credit score (In order of importance).

1. Payment history. Any bill 30 days or more past due could turn up on your credit report. It depends on whether the creditor decides to report it. Consumers should play it safe and pay all bills on time. Late payment dings stick on reports for seven years.

2. Outstanding debt. Balances on credit lines (i.e. credit cards) should be below 50 percent of the maximum credit available, or better yet below 35 percent.

3. Credit account history. Lenders see consumers who have long -- and positive -- credit history as less risky. Consumers looking to close credit card accounts should consider keeping open the one or two they've had the longest.

4. Recent inquiries. Every time a prospective lender pulls a consumer's credit report that inquiry is noted on his report. Too many inquiries in a short amount of time could indicate the consumer is desperate to borrow, overextended and not a good credit risk.

5. Types of credit. Lenders are looking for diversification. Consumers will rate better if they have several types of credit -- i.e. credit cards, mortgage, home equity line and auto loans -- rather than if they have lots of one type of credit -- i.e. 10 credit cards.

SOURCE: Steven Katz, spokesman for TransUnion. Katz said the factors and their order of importance are true across the credit industry.

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